

**RESEARCH**
**BOB Economics Research | Weekly Wrap**

Year ends with conclusive deals

**Banking**

Resolution of stress in the power sector still far away

**SUMMARY**
**India Economics: Weekly Wrap**

The year ended with a Brexit deal and US President signing a US\$ 900bn stimulus. GBP ended the week higher. US\$ was stronger as well. Global yields and equities were softer on concerns over economic impact of new Covid-19 strain. On the domestic front, RBI continued its special OMO of another Rs 100bn. Indian equity markets were also flat as FPI inflows slowed down. In the coming week, India's current account, fiscal and core industries data will be released. RBI will publish much awaited Financial Stability Report.

[Click here for the full report.](#)

**Banking**

Key takeaways from our interaction with a power sector expert: Stress in the power sector is largely due to non-availability of coal and absence of long term PPAs. There are not many projects especially outside NCLT that are likely to be resolved over the next 12-18 months. Banks have been making efforts to revive stressed assets either with or without the incumbent promoters but the delay in resolution is largely due to lack of buyers, especially foreign funds. More so, there is a risk of potential buyers pulling back their bids as owing to delays caused by bandwidth constraints of NCLT/ NCLAT. Expected haircut in the resolution of the projects is close to 50% but banks don't need to build additional provisions as they have adequately provided for such loans.

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**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Cipla</a>	Buy	900
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,180
<a href="#">Tech Mahindra</a>	Buy	1,040

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	410
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.92	(2bps)	4bps	(95bps)
India 10Y yield (%)	5.96	1bps	9bps	(55bps)
USD/INR	73.55	0.3	0.5	(3.1)
Brent Crude (US\$/bbl)	51.29	0.2	7.3	(24.8)
Dow	30,200	0.2	1.1	5.4
Shanghai	3,363	(0.6)	(0.2)	11.9
Sensex	46,974	1.1	6.1	13.0
<b>India FII (US\$ mn)</b>	<b>23 Dec</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	(144.1)	449.8	(14,169.4)	(4,409.9)
FII-E	94.8	6,450.7	22,556.4	29,159.3

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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## WEEKLY WRAP

28 December 2020

**Year ends with conclusive deals**

The year ended with a Brexit deal and US President signing a US\$ 900bn stimulus. GBP ended the week higher. US\$ was stronger as well. Global yields and equities were softer on concerns over economic impact of new Covid-19 strain. On the domestic front, RBI continued its special OMO of another Rs 100bn. Indian equity markets were also flat as FPI inflows slowed down. In the coming week, India's current account, fiscal and core industries data will be released. RBI will publish much awaited Financial Stability Report.

Sameer Narang | Jahnavi

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**Markets**

- **Bonds:** US 10Y yield fell by 2bps (0.92%). However, in the current week it will be supported by stimulus deal signed by President. UK 10Y yield rose by 1bps (0.26%) and would inch up further due to finalisation of trade deal between UK and EU. Crude prices fell by 1.9% (US \$ 51/bbl). India's 10Y yield closed flat at 5.96%. System liquidity surplus was at Rs 5.1tn as on 24 Dec 2020, same as in the previous week.
- **Currency:** Global currencies closed mixed with EUR falling the most (0.6%) and GBP (0.3%) gaining the most led by developments around Brexit trade deal. DXY rose by 0.3% as global currencies were impacted by new Covid-19 strain. INR ended flat despite dip in crude prices (1.9%) and foreign inflows of US\$ 220mn.
- **Equity:** Barring Dow and Sensex (flat), other global indices ended the week lower on the back of escalated concerns over new strain of Covid-19 virus leading to extended lockdowns. Amongst other indices, Shanghai Comp (0.9%) declined the most, followed by both FTSE and Nikkei falling by 0.4% each. Sensex ended flat with oil & gas stocks slipping the most.
- **Covid-19 tracker:** Global cases rose by 4mn in the week ending 27 Dec 2020 compared with 4.6mn in the previous week, led by US and Europe. India added 157k cases this week compared with 174k in earlier week.
- **Upcoming key events:** In current week, retail sales data of Germany and manufacturing PMI of China will be released. In addition, US pending home sales and jobless claims are also awaited. On the domestic front, infrastructure index, fiscal, external account and RBI's FSR is awaited.



**BANKING**

28 December 2020

**Resolution of stress in the power sector still far away****Key takeaways from our interaction with a power sector expert:**

- Stress in the power sector is largely due to non-availability of coal and absence of long term PPAs.
- The Rs 900bn financial package for discoms by the government can at best be a temporary support but cannot be a solution to a problem given that it is adding to the debt of the already stressed discoms.
- Discoms can be revived via efficient management and their privatization is one of the solutions but it has its own challenges. Sub-licensing of discoms can also help find a medium-term solution to their woes.
- There are not many projects especially outside NCLT that are likely to be resolved over the next 12-18 months. Tata's or Adani's can at best aid in resolving 2-3 projects each.
- Banks have been making efforts to revive stressed assets either with or without the incumbent promoters but the delay in resolution is largely due to lack of buyers, especially foreign funds.
- More so, there is a risk of potential buyers pulling back their bids as owing to delays caused by bandwidth constraints of NCLT/ NCLAT.
- Expected haircut in the resolution of the projects is close to 50% but banks don't need to build additional provisions as they have adequately provided for such loans.
- Currently, it is difficult for stressed NCLT projects to sell their power given that their average variable cost of power is over Rs 4 per unit as compared to ~Rs 2.6 per unit for a well-run project.
- Solar power projects are selling their output at a low rate of Rs 2 per unit given that either their cost of setting up the plant is as low as Rs 30mn/mw or their cost of capital is low. These projects are likely to face their own challenges going forward if either one of these variables get disturbed.
- We continue to prefer large private banks like ICICI Bank, Axis Bank, HDFC Bank and State Bank of India that are not only well capitalized but also have built healthy provisioning buffer for asset quality shocks.

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**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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